

Fiscal Management Division
Expenditure Audit Section
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Post-Payment Audit of the Texas Animal Health Commission



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EXECUTIVE SUMMARY

Audit scope

We audited a sample of the Texas Animal Health Commission (Commission) payroll, purchase and travel transactions that processed through the Uniform Statewide Accounting System (USAS) and the Uniform Statewide Payroll/Personnel System (USPS) during the period beginning March 1, 2013, through Feb. 28, 2014, to determine compliance with applicable state laws.

The Commission received appendices with its full report that included a list of the identified errors. Copies of the appendices may be requested through a [Public Information Act](#) inquiry.

The audit provides a reasonable basis for the findings set forth in this report. The Commission should implement the recommendations listed in the Detailed Findings of this report. If necessary, the Texas Comptroller of Public Accounts (Comptroller's office) may take the actions set forth in Texas Government Code Annotated, Section 403.071(h) (Vernon 2013), to ensure that the Commission's documents comply in the future. The Commission must ensure that the findings discussed in this report are resolved.

Texas law requires the Comptroller's office to audit claims submitted for payment through the Comptroller's office. All payment transactions are subject to audit regardless of amount or materiality.

Payroll transactions and deductions

Payroll transactions were audited for compliance with the General Appropriations Act (GAA), the [Texas Payroll/Personnel Resource](#) and other pertinent statutes.

- No issues were identified.

A limited sample of voluntary contributions was also audited.

- No issues were identified.

Purchase transactions

Purchase transactions were audited for compliance with the GAA, [eXpendit](#), the [State of Texas Procurement Manual](#) and other pertinent statutes.

The audit identified:

- Four instances in which additional bids were not obtained.
- Two purchase orders created after the invoices were received.

Travel transactions

Travel transactions were audited for compliance with the GAA, [Texttravel](#) and other pertinent statutes.

- No issues were identified.

Security

The audit included a security review to identify any of the Commission's employees with security in USAS, USPS or on the voucher signature cards who were no longer employed or whose security had been revoked. Upon termination or revocation, certain deadlines must be observed so that security can be revoked in a timely manner.

The audit identified:

- One employee who retained the ability in USAS to expend funds after authority expired.
- Another employee who retained the ability in USPS to expend funds after authority expired.

Internal control structure

The Commission's internal control structure was reviewed. The review was limited to obtaining an understanding of the Commission's controls sufficient to plan the audit and did not include tests of control policies and procedures.

The audit identified:

- Three employees who can adjust payment instructions in the Texas Identification Number System (TINS) and approve paper vouchers without oversight.
- Four employees who can pick up warrants from the Comptroller's office and approve paper vouchers without oversight.

Fixed assets

The audit included a limited review of fixed assets acquired by expenditures during our audit period to test for accurate reporting in the State Property Accounting (SPA) System and to verify existence of the assets.

- All assets tested were in their intended location and properly recorded in SPA.

The disposed asset report listed one asset as stolen during the audit period. The theft of the asset was supported by a police report.

Direct deposit authorization forms

A review was conducted of the Commission's procedures to comply with the federal mandate to properly identify and handle payments involving the movement of funds internationally.

The audit identified:

- Eight instances where an older form was used. The form used did not include the question regarding whether the money would be sent out of the country. This form did not adhere to the National Automated Clearing House Association rules requiring the identification of a direct deposit payment if it is an Automated Clearing House Transaction.
- One form where the employee did not indicate whether the money would be sent out of the country.

Prior post-payment audit and current audit recurring errors

A prior post-payment audit of the Commission's payroll, purchase and travel transactions was concluded on Feb. 16, 2011.

During the current audit, the following recurring errors were identified:

- Purchase order created after invoice received.
- Employee retained ability to expend funds after authority expired.
- Control weakness over expenditure processing.

Other auditor observations

The Commission currently does not have written rules and procedures for processing equity pay adjustments as required by the GAA, Article IX, Section 3.08(d). As a result of the audit, the Commission is developing these procedures as required.

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DETAILED FINDINGS — PURCHASE

Additional Bids Not Obtained

Finding

The Commission made three purchases for more than \$5,000 each without obtaining at least three bids from vendors before making the purchase.

This violates the procurement requirement to obtain bids for services between \$5,000 and \$25,000, which must be made using the open market informal solicitation method. See the [*State of Texas Procurement Manual – Section 2.7.*](#)

The Commission stated that, on one of the purchases, it did not have time to get additional bids, however, there was no indication that this was an emergency purchase. For another purchase, the Commission used a vendor they had used in the past for purchases under \$5,000 without getting additional bids first. The Commission only obtained bids from two vendors for the third purchase. Failure to obtain bids from multiple vendors increases the risk of paying more than necessary for goods and services, and may also result in not contracting the most qualified vendor. Such is the goal behind the notion of competitiveness, to attain the very best value the market can offer.

Recommendation/Requirement

The Commission must obtain bids from qualified vendors for all goods and services exceeding \$5,000.

Commission Response

Procurement personnel failed to obtain bids from qualified vendors for all goods and services exceeding \$5,000. This was an oversight, and in the future, all purchases for goods and services exceeding \$5,000 will have the necessary three bids obtained and documented, prior to purchase. Financial Service personnel will verify this during the budgetary approval portion of the procurement process.

Purchase Order Created After Invoice

Finding

We identified two instances where the purchase orders were not created until after the vendors invoiced the Commission. The Commission's procedures require that staff create a purchase order prior to obtaining goods and services, but this procedure was not followed in these instances.

The Commission stated that, for one of the payments, there was a delay in obtaining the Commissioners' approval for the purchase. The Commission could not determine why the other purchase order was not prepared until after the invoice was received.

Without issuing the purchase order and documenting it with the vendor prior to ordering the goods, it becomes difficult for the Commission to ensure that it is not overcharged or billed for goods or services beyond those the Commission had agreed to purchase.

It is the general responsibility of a state agency and its officers and employees to "ensure for each purchase document, the agency maintains necessary documentation for proving that each payment resulting from the document is legal, proper, and fiscally responsible." See 34 Texas Administrative Code, Section 5.51(c) (1) (D) (2013).

Recommendation/Requirement

The Commission must ensure that its procedures are followed. While a formal purchase order is not required, the Commission must ensure that documentation of the purchase agreement is prepared at the time the Commission orders the goods or services.

Commission Response

Agency personnel, authorized to buy items on behalf of the Commission, will be reminded that the purchase documentation MUST be completed and submitted for approval prior to making the purchase.

DETAILED FINDINGS — EXPENDITURE APPROVALS

Employee Retained Ability to Expend Funds After Termination

Finding

During the audit period, the Commission did not submit requests on or before the effective revocation date to remove two employees' USAS/USPS security to electronically approve Commission expenditures. The security requests were sent one day and three days late, respectively. This permitted the employees to electronically approve any vouchers that the Commission submitted electronically to the Comptroller's office through USAS and USPS after authority expired.

When an employee's authority to approve an agency's expenditures is revoked for any reason, the employee's security profile must be changed not later than the effective date of the revocation or termination to prevent the employee from executing electronic approvals for the agency. See 34 Texas Administrative Code, Section 5.61(k)(5)(A)-(B) (2013).

The Commission stated that these instances occurred because the staff member responsible for removing this security did so on the first working day after termination for these employees instead of on the day of termination.

Recommendation/Requirement

The Commission must ensure that the person responsible for sending termination notifications to the Comptroller's office:

- Is aware of the designated employee's termination on or before the termination becomes effective,
- Follows through with the Comptroller's office to ensure the receipt of the notification and
- Checks to ensure that the revocation occurred.

Commission Response

The agency failed to revoke two employees from the USAS/USPS on or before the effective date of the employees' termination date. This was an oversight, and in the future, all termination notifications will be sent to the security coordinator and assistant security coordinator to ensure timely removal of access for terminated employees. Effective immediately, TAHC will terminate an employee's access to USAS/USPS, including security, effective on or before the employee's termination date.

Control Weakness Over Expenditure Processing

Finding

As part of our planning process for the post-payment audit, we reviewed certain limitations that the Commission placed on its accounting staff members' abilities to process expenditures. We reviewed the Commission's security in USAS, USPS, TINS and voucher signature cards that was in effect on April 3, 2014. We did not review or test any internal or compensating controls that the Commission may have relating to USAS, USPS or TINS security or internal transaction approvals.

We identified four employees with multiple security capabilities. These employees could all pick up warrants from the Comptroller's office and approve paper vouchers. Three of these employees could also adjust payment transactions in TINS and approve paper vouchers. The Commission received a schedule of this finding during fieldwork.

To reduce risks to state funds, agencies should have controls over expenditure processing that segregates each accounting task to the greatest extent practical.

Recommendation/Requirement

The Commission should review the controls over expenditure processing and segregate each task to the extent possible to ensure that no individual is able to process payments without oversight.

Commission Response

USAS security was already established so that no one individual can both enter and release batches. TAHC has removed the individuals who have authority to release vouchers in USAS/USPS from the Agency Authorization for Warrant Pickup form (#74-189). No individual is able to enter a transaction into USAS or USPS and release within the same system. Furthermore, TAHC warrants are normally picked up by the Procurement and Support Services Division of the Comptroller of Public Accounts.

All daily registers, (Warrant, ITV and Direct Deposit) are reviewed daily by multiple employees in the department, and this process would detect inappropriate activity.

The Financial Services department at the TAHC is a small staff and due to this it is difficult to completely separate all duties. The TAHC is willing to accept the risk associated with the individuals who have the authority to adjust payment instructions in TINS and to approve paper vouchers. Detection of inappropriate activity will be possible as a result of agency procedures. These procedures include requiring the documentation of changes to payment instructions via the completion of a payee change request form, the approval of that form by a second individual, entry into TINS by a third individual, and verifications of payments on daily run reports.